

# **PROPOSED UNINCORPORATED KING COUNTY BUDGET**

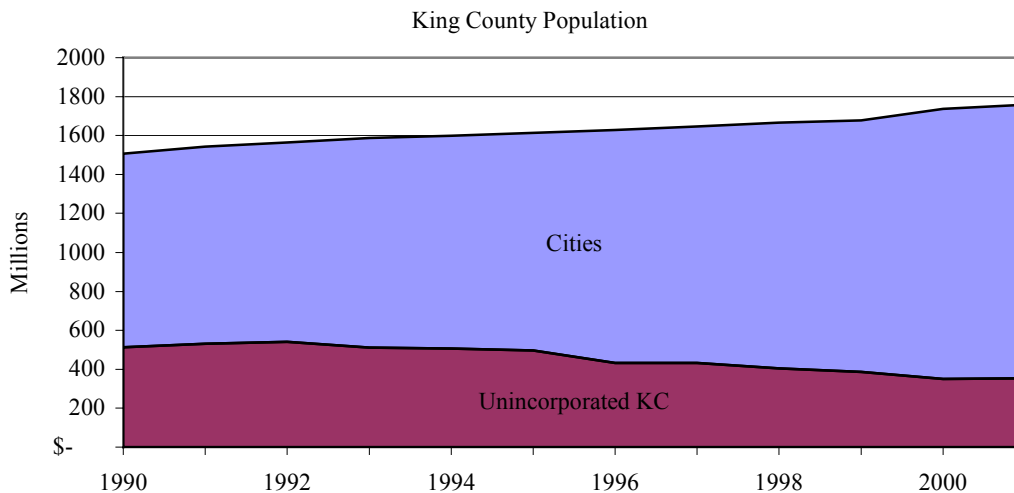
## INTRODUCTION

In 1990 the Washington State Legislature passed the Growth Management Act, which requires counties and cities to plan for population growth. This Act insures that needed infrastructure and services are available in a timely manner. In 1992, King County adopted and the 35 cities ratified, a 20-year vision statement and related countywide planning policies. These actions resulted in the designation of an Urban Growth Boundary wherein, with a couple of exceptions, the area to the west of the Boundary is designated as the Urban Area and the area to the east of the Boundary is considered the Rural Area. By design, the urban area density is greater than the rural area densities. The types and levels of services also differ between the urban and rural areas.

The countywide planning policies recognize that cities are the appropriate provider for local urban services and counties are the appropriate provider for regional services. When the Urban Growth Boundary was established, a significant part of the area designated as Urban was and continues to be located in unincorporated King County. The provision of urban services to the urban areas within unincorporated King County places an incredible burden on County resources. The County's tax base is largely defined to provide regional services. Unlike cities that have taxing authority and a tax base to support urban services, the County relies on countywide property taxes to provide not only regional services but to subsidize urban services for King County's unincorporated area.

## KING COUNTY IS IN TRANSITION

As late as 1989, more than 40% of King County's population resided in the unincorporated area. Beginning in 1990, new cities began to incorporate and older cities annexed large portions of unincorporated King County. From 1990 through 1999 ten cities incorporated and 323,832 unincorporated County residents became City residents. As shown in the chart below only 19% of the County's population resides in unincorporated King County in 2001.



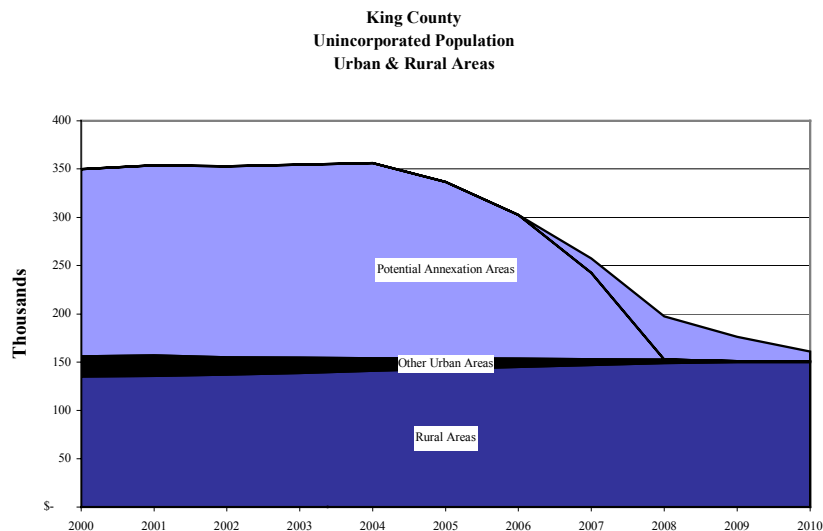
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In 2002 the population of unincorporated King County is estimated at 352,000 with 218,000 located in the urban area and 134,000 located in the rural area. For planning purposes, most of the urban area in King County is grouped into potential annexation areas (PAAs). The PAAs are areas adjacent to cities and in some cases have been officially designated by a city as an area it plans to annex. Annually, King County staff estimate when each PAA will likely be annexed. The purpose of this planning is to guide both infrastructure planning and revenue forecasting. This year's plan identifies ten critical annexation areas totaling approximately 90% of the urban population in unincorporated King County. The ten areas as shown on the attached map are:

<b>Potential Annexation Area</b>	<b>2002 Est. Population</b>
Finn-Juanita-K'gate	32,800
Klahanie	11,150
East Federal Way (SWKC)	20,800
North Highline	32,500
West Hill	14,200
Fairwood-Petrovitsky	38,900
Renton East	8,600
Eastgate	4,650
Kent Northeast	25,800
Lea Hill remainder	8,500
Total:	197,900

Based on current city populations, each of these PAAs has enough population to be a city. There are fourteen cities in the County that actually have less population than any one of these PAAs. Combined, the populations in these unincorporated urban areas would represent the second largest city in Washington State.

Based on discussions with key planning staff, it seems reasonable to project that the ten PAAs will be annexed by 2008-10, which will result in 198,000 unincorporated King County residents becoming city residents. This impact on the population of King County is shown below:



With these projections it is important to recognize that the nature of unincorporated County population is changing. Within a 20-year period from 1990 to 2010, the unincorporated King County population will have declined from 40% to about 10% of the population of the entire county. Unincorporated King County is moving from a mix of urban and rural population to one that is almost entirely rural. During this transition period, King County will continue to be required to provide urban services to those in the urban unincorporated areas for the next eight to ten years.

### **BALANCING REVENUES & EXPENDITURES IN UNINCORPORATED KING COUNTY**

A guiding principle for governments is that revenues and expenditures should be balanced. The revenue received should be sufficient to pay for the services delivered. County revenues are a mix of taxes, revenues from other governments, permits, fees, charges and fines. Federal and state laws and regulations restrict the use of most revenues. Unincorporated King County revenues are 1) revenues collected solely from unincorporated King County residents, 2) revenues distributed by the State based on the unincorporated population or 3) revenues where their use is restricted to unincorporated King County services. The following table generally describes the major revenues for unincorporated King County.

Property Tax for Unincorporated King County	The largest source of revenue for unincorporated King County is the County's road district, which applies to all taxable property within unincorporated King County. The revenues from this tax may be used for the construction, repair, improvement, or maintenance of county roads and bridges. It is possible to use the revenue for other local services but such diversion either requires a popular vote or makes the County ineligible to receive certain grant funds from the State. Unlike the County, the cities' use of property tax revenue is unrestricted. Such revenues are used to finance a full array of local services. The restriction on the County impedes its ability to fund local services for the unincorporated area.
Local retail sales and use tax	The County levies a one percent retail sales tax within unincorporated King County. In general, the tax applies to goods, construction including labor, the selling of personal tangible property. By State law, the County also receives fifteen percent of the sales tax revenue collected within cities. Historically, King County has maintained that the fifteen percent sales tax revenue from the cities is for local unincorporated services. With growth management concentrating major retail businesses in cities, residents of unincorporated King County are more likely to spend their disposable income in cities and not in unincorporated King County. Over the years, other approaches have been advanced. In the mid 1980's, King County recommended an equalization formula providing that countywide sales tax be distributed based on income or population. Others have argued that the revenues received from the fifteen percent of the tax collected within cities and within the unincorporated areas should be considered regional revenues.
1/10 of one percent sales tax for criminal justice purposes	The distribution formula is complex – some of the revenues go to Counties and others are distributed based on population.
Real Estate Excise Tax (REET) #1&#2	There are two REET taxes. One tax generates revenues for a wide range of capital projects to include roads, highways, street and road lighting systems, parks, and trails. The second tax generates revenue for a more narrowly defined set of capital projects. The County has limited its use to parks improvements

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The County also imposes timber and gambling excise taxes as well as a motor vehicle fuel tax. The County charges fees for the Motor Vehicle License and Cable TV Franchise and for land use fees, development impact fees, animal licenses fees, court filing fees and record fees.

The following local municipal services are provided to King County unincorporated area residents and are funded primarily through unincorporated property tax, sales tax revenues, federal and state grants, and where necessary, countywide property taxes.

**Law Safety & Justice Services:**

<b>Local Service</b>	<b>Brief Service Description</b>
Local Law Enforcement Services	Reactive patrols responding to 9-1-1 calls for service, criminal investigations for property crimes, minor assaults and auto thefts, crime prevention services, evidence and supply, and pro-active patrol.
District Court Services	Processing misdemeanor and gross misdemeanor cases, infractions, civil actions, lien foreclosures, small claims, and anti-harassment and protection orders.
Fire Investigation and Code Enforcement	Fire cause and origin investigation. Code enforcement would include all matters concerning life and safety issues along with serious environmental concerns.
Emergency Management Services	Preparing for and carrying out emergency functions to mitigate, prepare for, respond to and recover from emergencies and disasters.

**Human & Health Services:**

Indigent Services	Indigent defense services provided to misdemeanors with jail services provided by King County and probation services provided by the District Court.
Human Services	Services include Senior Services, Community Services Administration, Children, Youth and Family Services and Domestic Violence law enforcement and services to victims and their families.

**Physical Environment:**

Parks Services	Includes local parks
Local transportation planning	Planning for local arterials and street networks
Road Const. & Maintenance	Provides operation and maintenance for the 1,858 miles in unincorporated King County.
Trans. Concurrency Planning/ Implementation	Insuring that adequate transportation improvements, strategies and actions are taken to support new development and achieve transportation level of service (LOS) standards

**General Government:**

General governmental	The County Council, the County Executive, finance, budgeting and auditing and human resource management.
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The following local services are provided to unincorporated area residents by King County and are primarily funded through fees or other taxes: Building and Land Use Development Services, fire

protection systems engineering review and inspections, emergency call receiving/dispatching services, and storm water services. The following local services are provided by King County, by other governmental agencies or by private entities and are funded through fees; solid waste disposal service for mixed municipal solid waste; water distribution; gas, electricity; telecommunications; and sewer collection. Sewer treatment, which includes treatment of wastewater in conformance with federal and state regulations and standards, is provided by King County and by sewer districts. For the rural areas of unincorporated King County, sewage treatment occurs with privately owned, on-site septic systems.

### **THE PROPOSED 2003 BUDGET FOR UNINCORPORATED KING COUNTY**

Given the changing nature of King County's unincorporated area population over the next eight to ten years, it is important to begin the transition period with an understanding of the magnitude of the revenues and services provided to this area. Over the years, the County and the cities have grappled with the challenge of categorizing County revenues and expenditures into regional, unincorporated, contracted municipal services, services to cities and other contracts/grants. Several review studies have been undertaken to address taxpayer equity concerns as well as to address the potential impact of expected annexations and incorporations with the most recent study occurring in 1996. That study resulted in general agreement among study participants on the categorization of revenues and expenditures. There remained a lack of agreement, however, on the appropriate categorization for retail sales tax collected by King County.

Given the lack of agreement, three allocation options have been developed regarding retail sales tax.

<b>Option</b>	<b>Option Description</b>	<b>2003 Est. Retail Sales Tax - Unincorporated areas</b>
I	Allocate 85% of the retail sales tax collected in unincorporated King County as an unincorporated revenue for local services; allocate the 15% from the cities and the 15% from unincorporated King County as a regional revenue;	\$18.9 million
II	Allocate <u>all</u> sales tax collected by the cities and the county based on personal income	\$44.7 million
III	Allocate all sales tax received by the County from the cities and from the unincorporated area as unincorporated revenue for local services.	\$59.8 million

During the 2003 budget process, expenditures for departments providing service to the unincorporated areas were reviewed. The expenditures were assigned to one of the following categories: regional, unincorporated, city subsidy, or contracts. The results of this analysis are attached and serve as the basis for the operating expenditures shown below. The capital expenditures were obtained from a list of proposed capital projects.

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While not intended to meet exacting accounting standards, the revenues and expenditures using three allocation options regarding retail sales tax are:

<b>Revenues:</b>	<b>(In millions)</b>
Beginning balance	\$1.9
REET #1 & #2 Revenues:	\$10.3
Criminal Justice Sales Tax & Other revenue:	\$7.1
Roads/Unincorporated Area Property Tax Revenue:	\$49.9
Roads Capital Revenue:	\$81.9
Retail Sales Tax Revenue:	\$11.1
Cable TV Franchise Fee; Animal License Fee:	\$3.4
Gambling Tax; Leasehold Excise Tax Revenue:	\$3.1
Interest Earnings on Retail Sales Tax:	\$2.9
Other revenues	\$10.0
Total Revenues	Option I: \$181.7
	Option II: Personal Income: \$207.4
	Option III: All Sales Tax Rec'd: \$222.6
<b>Expenditures:</b>	
General Government:	(\$15.7)
Law, safety and Justice:	(\$68.3)
Health & Human services:	(\$1.8)
Physical Environment:	(\$4.6)
Other expenses:	(\$4.2)
Criminal Justice funded expenditures	(\$3.1)
Parks Capital Improvements:	(\$2.1)
Roads Operation & Maintenance:	(\$49.1)
Roads Construction:	(\$68.6)
Reserves	(\$5.4)
Total Expenditures:	(\$223.0)
Revenue Shortfall:	Option I: (\$41.3)
	Option II: Personal Income: (\$15.8)
	Option III: All Sales Tax Rec'd: (\$6)

With each of these options, expenditures for local services exceed local revenues. Similar reviews over the last 15 years have resulted in the same outcome. As long as King County provides urban services to residents in the urban unincorporated areas, the shortfall will continue. Some may view the urban subsidy as large as \$42 million or as small as \$0.6 million depending on the allocation method used. With any option, the County's provision of urban level services to urban residents occurs at the expense of regional services.

Next year is critical in the development of a plan to address the urban subsidy and the transition from urban to a more rural population. The transition plan should review services and service levels for both the urban and rural areas. It should review service delivery options and transportation planning alternatives for areas targeted for annexations and incorporations. After refinement of the current analysis, a multi year financial plan can be prepared. The financial plan should recognize the changing nature of the urban and rural population. These efforts will place the County in a better position to address this critical transition period.